were worth $118 million in FY 1990; Phase II awards totaled $342 million. Since its beginnings in 1983, 18,086 awards have been granted worth more than $2.2 billion through the SBIR program. "Minority/disadvantaged" firms received 244 Phase I and 81 Phase II awards in FY 1990 representing 9.4 percent of all SBIR dollars. Since the program's inception, "minority/ disadvantaged-owned" firms have received 1,981 awards, representing 11.0 percent of all SBIR awards; the value of these awards totaled $222 million or 9.7 percent of all dollars awarded. The Small Business Innovation Development Act that created the SBIR program is scheduled to sunset on September 30, 1993.

The Commission encourages OSTP, Department of Commerce, Department of Energy, Department of Transportation, and NASA to continue to maintain an independent priority special policy status for Small High Technology Enterprises.

Further the Commission strongly recommends that the Small Business Innovation Development Act be made permanent in order to permit individual small and minority business researchers the opportunity of continuing to assist this nation with its technological and competitive growth.

Linchpin for a National Strategy - Private Venture Capital Organizations

As part of a national agenda to assist small and disadvantaged business with timely access to affordable capital, particularly investment and long term funding, SBA has been an important focal point and financial resource provider for small and minority businesses over a somewhat turbulent forty-year history. The Commission's Interim Report detailed the history and activities of SBA's investment program, Small Business Investment Companies (SBICs and Special SBICs - Minority Enterprise SBICs) since their creation under the Small Business Investment Act of 1958 (1958 Act). An erratic history has touched the benefits and difficulties of this institutional Government/private investment partnership for small business. Many unjustified myths were generated, in and out of government, about this risk oriented investment experiment that led to the $36 billion U.S. venture capital industry we have today. However, as the latter half of the 1980's fostered an Administration policy of dismantling SBA, the private sector became less interested in risking its capital in an SBIC vehicle when the certainty of federal leverage and backing for the SBIC program was in doubt. When this air of doubt was combined with the media headlines highlighting savings and loan/banking losses and mismanagement, it caused Congressional oversight committees to carefully review the losses of two large SBICs in light of the validity of the entire worth of SBIC program. In addition, private venture capital disbursements to growing firms had fallen by 75 percent in the last five years.

Recognizing the importance of a revitalized SBIC and MESBIC private/government partnership for start-up and early stage enterprise in the dwindling U.S. economy, the new Administrator of SBA, Patricia Saiki, pledged to root out the problems and reinvigorate the SBICs so that more professional private venture capital and management would be directed to young, growing enterprises.

On September 13, 1991 Administrator Saiki appointed seventeen highly qualified private sector professionals to an Investment Advisory Council (IAC), chaired by international venture capitalist, Patricia Cloherty, to evaluate and make recommendations to her "ASAP" on what needs to be done to energize this vital partnership with the private sector venture community. The chairman of this Commission was privileged to be selected as a member of this IAC. A 100-plus page report prepared by the IAC entitled "Financing Entrepreneurial Business: An Agenda for Action" was submitted to Administrator Saiki on February 26, 1992. This was the first comprehensive evaluation of the SBIC program to analytically assess its historical contributions and weaknesses. 66/

Given its legislative charge that the SBIC program should assure that private sector risk taking and decision making would be dominant over the Government's role, the Report found that the regular SBIC program had "...achieved much in its thirty-three year history, at a profit to the Government." "From inception in 1959, through FY 1991, the regular program disbursed $8.5 million in long term capital to over 55,600 small businesses, utilizing a total of $2.6 billion in Government borrowings in the process. Conservatively estimated, the borrowed funds show a nominal return of 5.6 percent to the Government over the period, net of a 4.4 percent historical charge-off rate." "The Specialized Small Business Investment Companies (SSBICs), operating as a variant on the SBIC program since 1969 to serve the particular needs of minority and disadvantaged entrepreneurs, have deployed another $1.2 billion to 14,000 small businesses."

In terms of total employment in portfolio firms at the time of SBIC financings, the lowest number occurred in 1976 with 26,707 employees and the highest number of occurred in 1988 with 56,309 employees -- the 1990 figure fell to 38,631 people. For SSBICs, total employment of portfolio firms at the time of financing was 2,931 in 1976 rising to 9,936 people in 1988 -- the 1990 figure fell to 7,181. It is very significant to note that these figures do not reflect the growth in employment after the SBIC or SSBIC financings. For example, when SBICs invested in Apple Computer in the mid 1970s there were only 35 employees, today there are more than 14,000 people employed by Apple. These increases in growth have not been captured by the SBA data.

SBA Investment Division data show that for calendar year 1990 SBICs provided the following financings by broad industry categories: 67/

Manufacturing	46%
Services	17%
Transportation, Communications, Utilities	11%
Retail Trade	10%
Wholesale Trade	8%
Finance, Ins., Real Estate	4%

For SSBICs in 1990, the breakdown of financings by industry showed:

Transportation, Communications, Utilities	39%
Retail Trade	26%
Services	20%
Manufacturing	6%
Wholesale Trade	8%
Finance, Ins., Real Estate	4%

The dollar amounts of SBIC disbursements in 1990 totaled $546 million and for SSBICs $99.3 million. Historically, SBICs have provided more than 61 percent of their funding to small business in the form of "equity-type" financing, and SSBICs have historically had nearly 35 percent of their funding to minority businesses in the form of "equity-type" financings. Since 1980, more than 50 percent of the SBIC financings went to firms three years old or less and more than 60 percent of the SSBIC financings went to minority firms three years old or less. Investment dollars in the equity of young companies means creating value for growth and cashing in on that five- to twenty-year growth through an IPO, acquisition, or merger.

66/ Financing Entrepreneurial Business: An agenda for Action, Report submitted to the Hon. Patricia Saiki, Administrator, U.S. Small Business Administration, February 1992.

67/ SBIC Program Statistical Package, Investment Division, U.S. Small Business Administration, November 1991.

The IAC Report makes forty recommendations, with appropriate supporting material, for improving the SBIC effectiveness and impact on the nation's entrepreneurial base. The recommendations fall within the following broad categories:

MISSION

- ***Retain the statutory mission language of the 1958 Act without any modifications.***

  "It is declared to be the policy of the Congress and the purpose of this Act to improve and stimulate the national economy in general and the small-business segment thereof, in particular, by establishing a program to stimulate and supplement the flow of private equity capital and long term loan funds which small business concerns need for the sound financing of their business operations and for their growth expansion and modernization, and which were not available in adequate supply: provided, however, that this policy shall be carried out in such a manner as to insure the maximum participation of private financing sources."

REDUCE CREDIT EXPOSURE AND RISK OF GOVERNMENT

- ***Tighten policies and procedures relating to oversight and in particular those SBICs that might represent potential losses to the Government, including:***

  - Use of a standardize detailed SBIC portfolio valuation guideline,

  - Implementation of an early warning system to detect potential at-risk SBICs,

  - Obtaining more updated financial reporting requirements,

  - Reduction in the amount of Government leverage available to SBICs,

  - More direct oversight by the Investment Division through a significant increase in new personnel trained in venture capital operations and management.

FINANCING AND REGULATORY INCENTIVES TO THE PRIVATE SECTOR

- ***Create a new participating (giving the Government a chance to get a piece of the action) preferred security and a new deferred interest debenture to leverage the private SBIC capital and thereby encourage early stage, equity-type financing in young firms not able to generate immediate interest income for the SBICs to service their debt to the SBA. Using preferred securities as leverage would also attract pension fund investment into the SBIC program.***

- ***Reduce some of the existing leverage ratios to reduce Government exposure and increase dollar borrowing limits to match and attract large amounts of professionally managed private venture capital into the SBA's small business investment program.***

- ***Make changes in some of the regulatory and procedural areas to permit a more active private market place by placing responsibility and accountability for those changes on the management and board members of the SBICs.***

ORGANIZATIONAL AND ADMINISTRATIVE CHANGES FOR GROWTH

- ***Structure changes in the operating organization of the SBIC program to raise its level of significance within SBA to achieve: increase resources; training of new personnel in "venture capital" investment operations and portfolio operating techniques; more direct regulatory control by Investment Division; more expedient and effective suitability standards for licensing new SBICs and SSBICs; creation of a new office for promotion and outreach of the program; and use of modern, cost efficient, data evaluation software and hardware products to track benefits and trends of the program.***

The Commission wishes to compliment the SBA Administrator and the IAC on the immediacy and boldness with which this significant part of the access to capital for U.S. entrepreneurs has been developed. By revamping the workable parts of a well tested Government experiment for providing risk capital to small and minority business, without creating brand new programs and authorities, and permitting existing private investment dollars and management, to at the same time through new investments, help cure the economic problems being faced by the nation is a most imaginative and realistic approach.

The Commission believes that this redirection of the SBIC and SSBIC program by SBA is the most crucial part of a national investment strategy for this economic sector and can lead to strategic accelerated developments towards assisting minority businesses in growth and technology related industries.

The SBIC and SSBIC program can and should help focus SBA's efforts toward economic growth and technology development. Through the investment program of SBA, investment decisions are made based on the underwriting "due diligence" and assessment of future markets by venture mangers responsible for handling private investment dollars as well as Government funds. SBICs may invest in businesses, but there is no basis for tracking such investments. Minority owned businesses may apply to SBICs or SSBICs for investment funds. Decisions will be based on the merits of the business plan.

The Commission's hearings throughout the country documented many opportunities for minorities in growing industries. Jo Anne Price of the National Association of Investment Companies (a national trade association for SSBICs) proposed the formation of a new venture capital fund that would raise $200 million from financial institutions to invest in SSBICs. However, a problem was raised dealing with SBA's lack of policy understanding when dealing with growth firms and venture capital portfolio investing techniques. SSBICs and other venture capital organizations have been unable to invest equity-type capital into 8(a) firms because, in most cases, SBA requires that the majority of all stock invested in the firm (including preferred stock) be owned and controlled by management. SBICs and SSBICs provide equity-type financing in the form of preferred securities and other such instruments in order to benefit from growth and any capital gain when they sell in future years.

The Commission fully endorses the recommendations of the SBA Administrator's Investment Advisory Council in its report dated February, 1992 and urges implementation of each phase as quickly as possible. Also, a revised SBA data collection system should capture complete job generation and growth resulting from SBIC and SSBIC financings.

During the course of the Commission's activities relating to evaluating venture capital sources and Section 8(a) firms, an apparent conflict in program policies has occurred. As a result of early problems with 8(a) firms being formed by "front" organizations, prohibitions have been established by

SBA which prevent 8(a) firms from having legitimate venture capital organizations invest in their business. We believe that SBA has been reviewing this apparent policy conflict.

The Commission recommends that because of the urgent need for equity-type capital and management support for 8(a) firms, SBA should permit non-controlling investment ownership positions to be taken in Section 8(a) firms by venture capital organizations such as SBICs and SSBICs.

SBA - Focusing on Filling the Capital Gap, Lifestyle, and Growth

The Small Business Administration (SBA) has been given the responsibility of assisting small and minority business with financing, Government contracts, management, and advocacy programs for nearly forty years. Given the inordinately skewed proportion of the size of the task to accomplish SBA's mission a more realistic focusing and matching of resources needs to be achieved, particularly in the financing areas. Without capital there is no start-up for a business, no growth or expansion, and no graduation into the private sector for minority contractors.

As has been discussed throughout this report and throughout the many hearings held, SBA has been a lending agency without a clear understanding of its market or market strategy. SBA must be able to support growth and new industry development as well as local needs and business concerns. Unlike its early years, however, SBA and its programs must count on local private financial institutions to provide the delivery system and business assessment for its guaranteed loan programs.

SBA has historically been a lending agency and loans to minority businesses fell into the categories of local businesses that were in restaurants, auto repair, and other such service or retail establishments. Based on activities and strategies previously cited minorities now have an opportunity to create wealth by starting fast growth oriented businesses that may have international opportunities. Growth businesses such as communications, information services, health care, computer products/services, electronics, and biotechnology represent those industries with the best potential for creating wealth and jobs for minorities. It is time for SBA to reset its priorities towards growth and international competitiveness (see paragraph A. of Section V. of this Report).

In the Spring of 1991, SBA attacked the regional economic problems that were severely impacting the growth and survival of small businesses. A pilot program, The New England Lending and Recovery Project, was established by SBA for the New England Region in which three major initiatives were created to address regional needs. First, A Revolving Line of Credit program was undertaken to provide working capital loans to small firms. Second, a joint SBA-FDIC effort was started to identify and correct problems relating to small business loan servicing and delinquencies. Third, there was a reintroduction of the Small Business Lending Company program where non-bank lenders (financial institutions that are regulated, but do not accept deposits under the banking requirements), can make use of SBA's lending and guaranty authorities.

The Commission again applauds SBA's innovative approaches to the short term and long term credit problems of small and minority businesses and recommends immediate assessment of the pilot programs so that other regions of the country may benefit from this lending and recovery project as soon as possible.

In terms of resource allocation, we note examples in the Budget of the U.S. Government for 1993 that show estimates of loans to SBICs financed through private markets to be $185.5 million for FY 1992 and only $100 million for 1993, a 54 percent decline.[68] While direct loans to SSBICs or MESBICs have been eliminated, Minority Investment Company guaranteed loans for FY 1992 are projected at $58.5 million, increasing 2.5 percent to only $60 million for 1993. Direct loans to 8(a) companies are projected at $5.0 million for FY 1993 up only 2.0 percent from $4.9 million for 1992.

Just as in the findings of SBA's Investment Advisory Council, funds must be made available to hire and train SBA professional staff in the current methods of evaluation and making credit and calculated risk judgments on bonafide business opportunities. Proactive rather than reactive SBA decision makers are needed on the front lines of business development, financing the deal. New job descriptions and authorities may be needed to accomplish these tasks. Without sufficient resources, SBA merely promotes the dream without the hope of realization. Without appropriate resources, it would be unfair to the public to encourage their hopes and dreams with a shell of an organization that can only pay "lip service" to a very dynamic part of our economy and society.

Again, we must stress that providing access to equity and debt financing for small and minority firms is vital to their survival and growth, particularly during hard economic times. SBA's historical mission has been to provide financing to small business through the private sector, particularly on a counter cyclical basis, so that this broad, diversified, unflappable depth of entrepreneurial energy can contribute to the nation's economic and competitive health. We need to make a substantial commitment and make certain that the economic system works for everyone.

Given the challenging steps taken by SBA on behalf of small and minority business in the access to capital area and given the limited resources currently available to the agency, the Commission recommends that SBA redeploy and increase its resources to concentrate its efforts in its investment and lending programs, giving a balanced priority to businesses in new growth industries and local, lifestyle establishments.

An End or a Beginning?

As this section on Access to Capital is concluded, we note the Interim Report stressed three basic areas of need -- a national focus for an investment strategy, data collection and monitoring to quantify problems and determine solutions, and rather than new programs, revitalizing proven investment approaches as exemplified by the positive track record of SBICs and SSBICs (MESBICs).

The new initiatives that have been cited in this report illustrate what can be done if all the parties to the strategy, Government and private industry, believe in and work toward a common objective -- facilitating the investment capital and growth needs of small businesses, particularly those business owners who have historically been excluded from using their creative business talents for the economic benefit of the country in which they are becoming significant consumers of goods/services and creators of <u>new</u> wealth. We cannot afford to merely rest on the potential merits of new Governmental initiatives and proposals, rather the Commission must be <u>assured</u> of active implementation and continuation of such important changes. The Commission's Report <u>must</u> not be just another document filed away within the research shelves of the Library of Congress.

In this context, the Commission strongly recommends that there be an organization function created at the White House level to ensure that small and minority business capital and credit issues continue to remain a national priority throughout all the agencies of government.

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[68] <u>Budget of the United States Government</u>, Fiscal Year 1993, Appendix One at pp. 911-919.

11

1987 Economic Censuses

MB87-3

SURVEY OF MINORITY-OWNED BUSINESS ENTERPRISES

Asian Americans, American Indians, and Other Minorities

Issued June 1991

U.S. Department of Commerce
Robert A. Mosbacher, Secretary
Rockwell A. Schnabel, Deputy Secretary

Economics and Statistics Administration
Michael R. Darby, Under Secretary
for Economic Affairs and Administrator

BUREAU OF THE CENSUS
Barbara Everitt Bryant, Director

Table 2. **Statistics for Minority-Owned Firms by Major Industry Group: 1987**—Con.

[Detail may not add to total due to rounding. This table is based on the 1972 SIC system. For meaning of abbreviations and symbols, see introductory text. For explanation of terms, see appendix A]

SIC code	Major industry group and minority	All firms: Firms (number) A	All firms: Sales and receipts ($1,000) B	Firms with paid employees: Firms (number) C	Firms with paid employees: Sales and receipts ($1,000) D	Firms with paid employees: Employees (number) E	Firms with paid employees: Annual payroll ($1,000) F	Relative standard error of estimate (percent)[1] for column— A	B	C	D
	Manufacturing—Con.										
36	Electric and electronic equipment	609	161 183	150	149 004	2 070	40 212	3	1	5	-
	American Indian and Alaska Native	8	4 280	3	4 236	59	630	31	-	-	-
	Asian and Pacific Islander	601	156 903	147	144 768	2 011	39 582	3	1	5	1
37	Transportation equipment	55	17 717	26	16 797	231	3 219	-	-	-	-
	American Indian and Alaska Native	7	694	4	(D)	(D)	(D)	-	-	-	(D)
	Asian and Pacific Islander	48	17 023	22	(D)	(D)	(D)	-	-		(D)
38	Instruments and related products	83	10 110	45	9 258	135	2 077	-	-	-	-
	American Indian and Alaska Native	3	14	-	-	-	-	-	-	-	-
	Asian and Pacific Islander	80	10 096	45	9 258	135	2 077	-	-	-	-
39	Miscellaneous manufacturing industries	1 195	72 606	202	56 675	798	12 180	3	2	7	-
	American Indian and Alaska Native	225	4 266	12	2 320	57	530	9	14	-	-
	Asian and Pacific Islander	969	68 340	190	54 355	741	11 650	4	2	7	1
	Transportation and public utilities	12 867	735 768	1 315	485 817	3 030	49 774	1	1	3	1
	Aleut	48	1 680	2	(D)	(D)	(D)	30	18	-	(D)
	Eskimo	50	931	7	(D)	(D)	(D)	23	17	48	(D)
	American Indian	619	41 675	152	22 483	273	3 581	5	4	9	4
	Asian Indian	2 812	159 605	234	92 482	488	10 842	4	2	6	2
	Chinese	2 578	175 923	252	115 093	741	11 581	4	2	5	1
	Japanese	1 352	104 773	208	77 164	689	9 227	4	2	6	2
	Korean	1 582	87 448	149	62 668	351	4 782	5	3	10	3
	Vietnamese	708	19 723	38	7 090	43	558	8	7	16	6
	Filipino	1 432	76 820	189	61 011	231	3 277	5	2	14	2
	Hawaiian	148	9 028	41	7 962	85	1 620	13	6	14	6
	Other Asian and Pacific Islander	1 329	66 962	78	28 980	222	3 887	6	4	16	2
41	Local and interurban passenger transit	6 144	135 773	172	13 449	275	3 035	2	2	14	5
	American Indian and Alaska Native	96	2 941	13	1 357	40	265	13	12	26	-
	Asian and Pacific Islander	6 049	132 832	159	12 092	235	2 770	2	2	5	5
42	Trucking and warehousing	2 894	154 042	502	77 191	971	15 128	2	2	5	3
	American Indian and Alaska Native	680	32 189	125	15 359	185	2 900	6	5	[illegible]	6
	Asian and Pacific Islander	2 214	121 853	377	61 832	786	12 228	3	2	6	3
44	Water transportation	103	8 831	25	6 734	87	1 325	-	-	-	-
	American Indian and Alaska Native	12	985	3	452	10	127	-	-	-	-
	Asian and Pacific Islander	91	7 836	22	6 282	77	1 198	-	-	-	-
45	Transportation by air	131	7 019	16	4 037	51	716	9	1	-	-
	American Indian and Alaska Native	30	865	6	414	4	63	31	6	-	-
	Asian and Pacific Islander	101	6 154	10	3 623	47	653	6	-	-	-
46	Pipe lines, except natural gas	1	(D)	-	-	-	-	-	(D)	-	-
	American Indian and Alaska Native	-	-	-	-	-	-	-	-	-	-
	Asian and Pacific Islander	1	(D)	-	-	-	-	-	(D)	-	-
47	Transportation services	3 093	394 004	544	324 870	1 453	22 783	2	1	4	1
	American Indian and Alaska Native	134	6 296	8	4 711	34	494	13	3	-	-
	Asian and Pacific Islander	2 959	387 708	536	320 159	1 419	22 289	2	1	4	-
48	Communication	421	33 037	42	27 581	171	6 518	5	1	6	-
	American Indian and Alaska Native	38	682	2	(D)	(D)	(D)	9	13	-	(D)
	Asian and Pacific Islander	336	32 355	40	(D)	(D)	(D)	5	1	5	(D)
49	Electric, gas, and sanitary services	160	(D)	14	1 775	22	271	9	(D)	-	-
	American Indian and Alaska Native	20	618	4	(D)	(D)	(D)	-	-	-	(D)
	Asian and Pacific Islander	140	(D)	10	(D)	(D)	(D)	10	(D)	-	(D)
	Wholesale trade	11 814	4 234 910	2 715	3 363 584	9 384	179 876	1	-	2	-
	Aleut	10	(D)	1	(D)	(D)	(D)	42	(D)	-	[illegible]
	Eskimo	10	(D)	1	(D)	(D)	(D)	-	(D)	-	[illegible]
	American Indian	340	34 585	91	(D)	(D)	(D)	9	3	17	[illegible]
	Asian Indian	1 134	879 785	393	731 378	1 968	37 511	4	1	4	
	Chinese	3 513	1 425 318	960	1 115 587	3 271	56 840	3	1	4	1
	Japanese	1 828	511 118	387	416 040	1 937	34 623	4	1	5	
	Korean	1 006	876 122	626	682 106	1 604	30 917	4	1	3	1
	Vietnamese	330	96 612	87	70 917	230	3 504	11	9	13	3
	Filipino	783	157 518	88	121 418	217	3 702	7	2	13	1
	Hawaiian	83	8 741	27	4 943	30	542	19	11	32	16
	Other Asian and Pacific Islander	560	230 842	165	194 617	556	9 282	8	1	[illegible]	1
50	Wholesale trade—durable goods	5 485	1 798 361	1 366	1 386 580	3 947	88 824	2	1	3	1
	American Indian and Alaska Native	247	24 294	60	18 887	158	2 251	11	3	29	2
	Asian and Pacific Islander	5 238	1 776 067	1 306	1 367 638	3 788	82 773	2	1	3	-

See footnotes at end of table.

12

S. Hrg. 101-339

MINORITY OWNERSHIP OF BROADCAST STATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON COMMUNICATIONS

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

MINORITY OWNERSHIP OF BROADCAST STATIONS

SEPTEMBER 15, 1989

Printed for the use of the Committee on Commerce, Science, and Transportation

TESTIMONY OF ROY M. HUHNDORF, PRESIDENT
COOK INLET REGION, INC.
BEFORE THE COMMITTEE ON COMMERCE, SCIENCE
AND TRANSPORTATION

September 15, 1989

Mr. Chairman and Members of the Subcommittee:

I am Roy M. Huhndorf, President and Chief Executive Officer of Cook Inlet Region, Inc. ("CIRI") and Chairman of its broadcast subsidiary, Cook Inlet Communications, Inc. ("CIC"). I am honored to have been invited to present to you our views on the Federal Communications Commission's Minority Ownership Policies, recognizing, of course, the strong support and encouragement Congress has previously shown for those policies.

In my testimony today, I want to describe how our corporations, which are equally and exclusively owned by approximately 6300 Alaska Natives, have been able to enter the ranks of radio and television licensees in this country, the disadvantages and hurdles we have faced as minorities, and the indispensible help that the FCC's Minority Ownership Policies have provided us. I urge that Congress enact legislation aimed at preserving the essence of those policies.

I should add that many Alaska Natives (including a third of the shareholders of Cook Inlet Region) live in other States of the Union. For all these reasons, it is wrong to think of Alaska Natives as exotic residents of the frozen North. We and others like us are all around you. We are the aboriginal owners of this land.

You should also understand that, while the ANCSA was enacted against the background of more than a century of exploitation of, and discrimination against, Alaska Natives, that statute was not an act of reparation for past sins or an effort to overcome the continuing effects of those sins.2/ As its title implies, the ANCSA provided land and other resources to Alaska Natives in payment for legitimate Native property rights.

The resources made available to Cook Inlet Region by the ANCSA are thus a trust which the company has a duty to administer for the benefit and under the control of our 6300 Alaska Native shareholders and their families, a group comprising over 20,000 beneficiaries. Under current law, all of our shareholders must be

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2/ In legislation signed by President Reagan on August 10, 1988, the United States has sought to make reparation to the Aleuts who (along with thousands of Japanese Americans) were interned in "detention" camps during World War II.

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---

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Alaska Natives or their descendants; under our charter, only shareholders can serve on our board of directors.

Wise investment of our resources is vitally important to our mission. I do not propose to document for you the history of discrimination against Alaska Natives and Native Americans generally or the extent to which it remains a problem today.3/ Nor would I maintain that every disadvantage suffered by Alaska Natives is the product of past or present discrimination. The heritage of the past, however, does indeed weigh heavily upon our people. Recent findings by the University of Alaska Institute for Social and Economic Research4/ demonstrate, for example that:

1. Alaska Natives are more vulnerable to violent deaths, serious injury, infectious disease and high infant mortality than others in the country. Between 1982 and 1984, Alaska Native suicides were over 5 times the national average,

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3/ It is sufficient to note that Native lands and resources were taken and exploited by the United States or white citizens without recognition of Native rights or compensation, and that many Native groups were subjected to unjustified, punitive military action, not only by Russians, but by the Americans who succeeded them. You can glean some sense of this past from a book such as James Michener's novel, Alaska. Discrimination against Natives, moreover, is clearly not a closed chapter of history. According to the Alaska Human Rights Commission, some 10% of the civil rights enforcement cases brought before it over the past four years were filed by Alaska Natives.

4/ Alaska Federation of Natives, Alaska Natives At Risk (Report, December, 1988).

homicides more than 6 times the national average, and accidental deaths more than 7 times that average. Infant mortalities are 240% of the national average, and incidences of hepatitus B, tuberculosis, meningitis, fetal alcohol syndrome and many other serious diseases far exceed that of the nation as a whole.

2. Most Native Alaskans live in rural communities, but the village Alaskan economy cannot meet the needs of its growing population. As of June, 1988, most Alaskan villages had unemployment rates between one-and-a-half and two times that of the statewide average, and per capita income in rural Alaska was less than 65% that of the average Alaskan.

3. Sadly, our Native children in rural areas enter and exit school with serious educational handicaps. Only 46% of eligible Alaska Natives graduated from high school in 1980 (compared to 88% of Alaskan non-Natives.) The drop-out rate of almost two out of every four students is four times that of the non-Natives. A 1988 study showed that less than 4% of Alaska Natives aged 25 or over had completed a college degree, as compared to 24% of the non-Natives.5/

5/ Institute of Social and Economic Research, University of Alaska, Minorities in Higher Education (1988).

These conditions are not limited to Natives who live in Alaska. One survey of out-of-state Alaska Natives, taken in 1983, revealed that only 56% had completed a secondary education, and 52% were unemployed or had left the labor force altogether.6/ Nearly one-fourth lived on incomes of less than $5,000 per year, and received some type of governmental assistance. Id.

The shareholders of CIRI suffer from many of the same problems. Their ethnic composition is as follows:

Athabascan	35%
Eskimo (Yupik and Inupiat)	32%
Aleut	18%
Other (Tlingit,Haida or mixed)	15%

Almost 40% of CIRI shareholders (the great majority of whom are adults and support families) had family incomes below $15,000 last year; roughly 30% did not graduate from high school; the average life span of a CIRI shareholder is 53 years, compared with over 70 years for the average American.

You can understand why, as a matter of corporate policy, we currently distribute about one-third of our net income directly to shareholders for income maintenance purposes. But our aims go well beyond income maintenance. The CIRI Foundation seeks to meet the social and educational needs of shareholders in the Cook Inlet

6/ 13th Regional Corp., 1983 Survey.

area through college scholarships, vocational training, and career upgrade grants. It also sponsors programs designed to encourage excellence in Alaska Native cultural arts, and to enhance the understanding of Native culture, history and ethnology among Natives and the public at large.

Finally, we view every enterprise in which CIRI is engaged as a potential source of opportunities for our young people to find jobs for which they are qualified and gain experience at all levels of business activity. I want to be very clear on this subject. Having tasted the bitterness of discrimination, we are not about to engage in discrimination ourselves, whether against white majorities or other minorities. Moreover, given the nature of our overall mission, our first priority in employment must be to secure the best qualified people we can find, whatever their race. But as and when our young shareholders are prepared by training and background, we have special reason to ensure their chances to compete for open positions. I am therefore pleased that, in recently opening a Los Angeles office (for the purpose of maintaining closer supervision of our operations in the "lower 49" or -- as Alaskans say -- "the Outside"), we have employed two young Alaska Natives, one as Director of Investments in our lower-49 office and one as Assistant Vice President of a CIRI enterprise in investment management.

II. Cook Inlet Communications and CIRI's Entry into Radio and Television

From its inception in 1972, CIRI's Board of Directors conceived its task as one of fashioning the company's asset base in a manner that would benefit its Native shareholders. For most of the first decade, we concentrated on confirming and enhancing the company's land and resource base. But the Board also realized that, in addition to providing a strong land base as a birthright for future generations, we had a need to engage in a variety of other business activities. Only in this way could we build opportunities for our shareholders to improve their lives, to create jobs, to change their attitudes towards the world and the world's attitudes toward them.

CIRI first identified communications-related opportunities as a potential field for investment and growth in 1979, when it entered into a joint venture to apply for the cable television franchise in Anchorage. That venture was unsuccessful, but it sparked our interest in the field generally.

We confronted immediately two basic problems. First, Alaska is sparsely populated. There are only nine operating commercial television stations in the entire State, and it has limited ability to support more. Anchorage, Juneau and Fairbanks major markets (if you can call them "major") -- are too small to be ranked by the ratings services. Cable television opportunities are similarly limited. Currently, 43 systems serve some 70,000 subscribers; all significant franchises have been granted and no new applications are pending.7/ It became quickly apparent that our chances to enter the field lay primarily in other States.

The second problem was a lack of experience. We had capital to invest, but only within the limits of prudence. We could not, and cannot now, risk our resources on speculative ventures. And we lacked a track record in radio or television that would make it easy to attract debt or equity financing for a venture firmly under Alaska Native control -- a feature we have deemed essential. In these circumstances, the FCC's policy on the issuance of tax certificates in support of minority ownership was vitally important. In 1985, we became the controlling general partner and 30% equity owner of the successful bidder for Station WTNH-TV, New Haven, Connecticut, which Capital Cities Communications was divesting en route to its acquisition of ABC. Because of the tax certificate, we were able to make a winning bid, without yielding control or an undue portion of the equity and without burdening the venture with a level of debt beyond our capacity to sustain.

7/ See 57 Television & Cable Factbook at B-37 (1989).

The tax certificate played a similar role in our acquisition of eleven radio stations from First Media Corporation in 1988, as well as our acquisition of Station WSMV-TV, Nashville, earlier this year. It continues to be a key to any future growth of our activities in radio or television. We are very pleased with the progress of our stations under CIRI control. But we assumed the ownership of our first station (WTNH-TV) only in January, 1986. We have been in this industry for less than three years. We are not viewed, and cannot expect to be viewed, as veteran broadcasters, with a demonstrated record of accomplishment in a field that was highly competitive when we entered and is rapidly becoming much more so.

We have, however, been working hard at the development of the experience and expertise without which no competitive enterprise can be successful, with or without the aid of tax certificates. We operate our stations through limited partnerships in which a CIRI subsidiary, CIC, is the controlling general partner and possesses the exclusive powers of management. All five of the CIC board members are Alaska Native CIRI shareholders. It is a highly active board, which meets regularly six times a year (and more often when needed), which has been centrally involved in the selection of management personnel and which engages in quarterly reviews of budget, programming, news, and all capital expenditures. While Alaska Natives are still newcomers to the business, we are learning.

I have also referred previously to our efforts to provide employment opportunities for CIRI shareholders and their families. We are now in the process of establishing a far-reaching broadcast internship program for both shareholders and members of other disadvantaged minority groups, under which we would hope to place interns at all of our stations.

That summarizes who we are and what we do in radio and television. We hope to become a company as widely respected in broadcasting as the companies from whom we have purchased the stations we now own. We hope to make a similar mark in the cable television industry. But our hopes and dreams depend in significant part on the continued availability of the tax certificate, as a means of managing and controlling the risks of further investment. Without that means of reducing risk, our duty not to fritter away the patrimony of our shareholders, upon which many of them rely to meet basic human needs, would sharply constrain our ability to expand and grow.

III. The Need and Justification for Congressional Action

I am not a lawyer, and the sharply differing opinions that judges have recently expressed on affirmative action generally and the FCC's Minority Ownership Policies in particular boggle the minds of most non-lawyers. It is clear, however, that those policies are under serious attack, and I am advised that further Congressional action to endorse and affirm them could play an important role in persuading the courts of their validity.

On that premise, I do indeed urge you to act. I think it obvious that the barriers to the entry and growth of a company such as ours in the radio and television media are, in significant part, due to the continuing effects of discrimination against Native Americans. I think it equally obvious that Native Americans can contribute a very special set of viewpoints and perspectives to those that radio and television convey to the public. For example, special attitudes toward nature and the environment are part of the cultural heritage of all Native Americans, along with an understanding (born of experience) of the need for business enterprises that create long-term employment opportunities, instead of merely extracting the land's resources and moving on. The experience of being subjected to discrimination, moreover, teaches its own special lessons about

... problems of race and discrimination in American society.

We bring that heritage with us wherever we go. We do not attempt to dictate the programming judgments of our stations, in an effort to ensure that Native viewpoints are expressed. But those we select to make those judgments know who we are and what it is we are trying to achieve. I am very proud, in this regard, that WTNH-TV was a nominee this year for a television Emmy for its television documentary on race relations in New Haven, entitled "The Price of Prejudice."

For all of these reasons, as well as those advanced by others who are testifying before you today, I suggest that there is a legitimate and compelling national interest in the promotion of minority ownership in radio and television. I understand and agree that the means used to advance that interest must be "narrowly tailored" and must not impinge unduly on the rights of nonminorities. I believe that the Minority Ownership Policies meet those tests.

My central interest, as my testimony makes clear, is in the continued availability of tax certificates. Those certificates do not bar anyone from bidding on a particular station or cable system. They do not immunize us from competition in bidding for particular properties and they certainly do not protect us from competition in operating those we own. As CIRI has learned from experience, moreover, there are many instances in which the availability of a tax certificate has no real bearing on a seller's choices. The vast majority of broadcast station and cable system sales are made to nonminority purchasers.

Tax certificates, moreover, are only granted when the FCC is satisfied that the purchaser is fully qualified and that the transaction serves the public interest. There is an opportunity for scrutiny to detect and prevent shams. And companies like CIRI, which are genuinely controlled by minorities, have a strong interest in the detection and rejection of shams, against which we otherwise have to compete.

CIRI is less concerned for itself about the continued availability of comparative hearing enhancements or of "distress sale" policies. The comparative hearing procedure requires an investment of executive time and energy that we have preferred to devote to acquisition and operation; the properties available under the "distress sale" policies have been limited in number and have not generally presented the kind of business opportunities we have sought.